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FY 2011 KHPA Budget Overview

Senate Ways and Means Subcommittee on KHPA

February 3, 2010

Dr. Andrew Allison, KHPA Acting Executive Director

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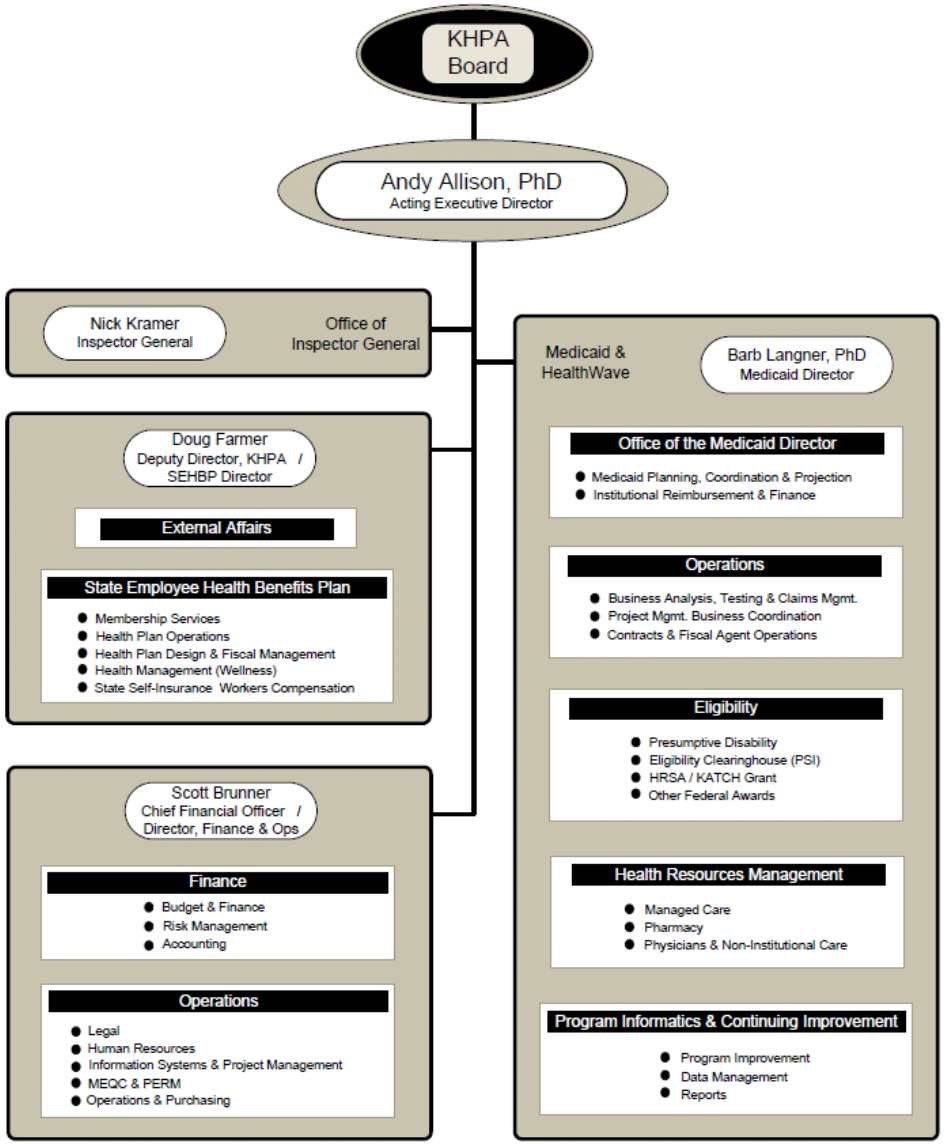
KHPA Overview



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Groups Covered by KHPA Programs

- **State employees, retirees, other participating public employees, and their dependents (non-SGF)**
  - **State employee health plan coverage is determined by the Health Care Commission**
  - **Service costs and administrative expenses are funded through employee and agency premiums**
- **Medicaid and CHIP (20-40% SGF)**
  - **Low-income Aged (about 35,000 beneficiaries @ $1,400 per month)**
  - **Low-income Disabled (about 56,000 beneficiaries @ $1,800 per month)**
  - **Low-income Families and Children (about 164,000 beneficiaries @ $265 per month)***
  - **General assistance/Medikan (less than 2,000 beneficiaries @ $760 per month)**
  - **Children's Health Insurance Program/CHIP (about 14,000 beneficiaries @ $140 per month)**
  - **Others, including Foster Children (about 39,000 beneficiaries @ $830 per month)**

  - **Total enrollment of nearly 318,000 in December 2009**
  - **Total costs of about $2.5 billion (all funds) for FY 2009**

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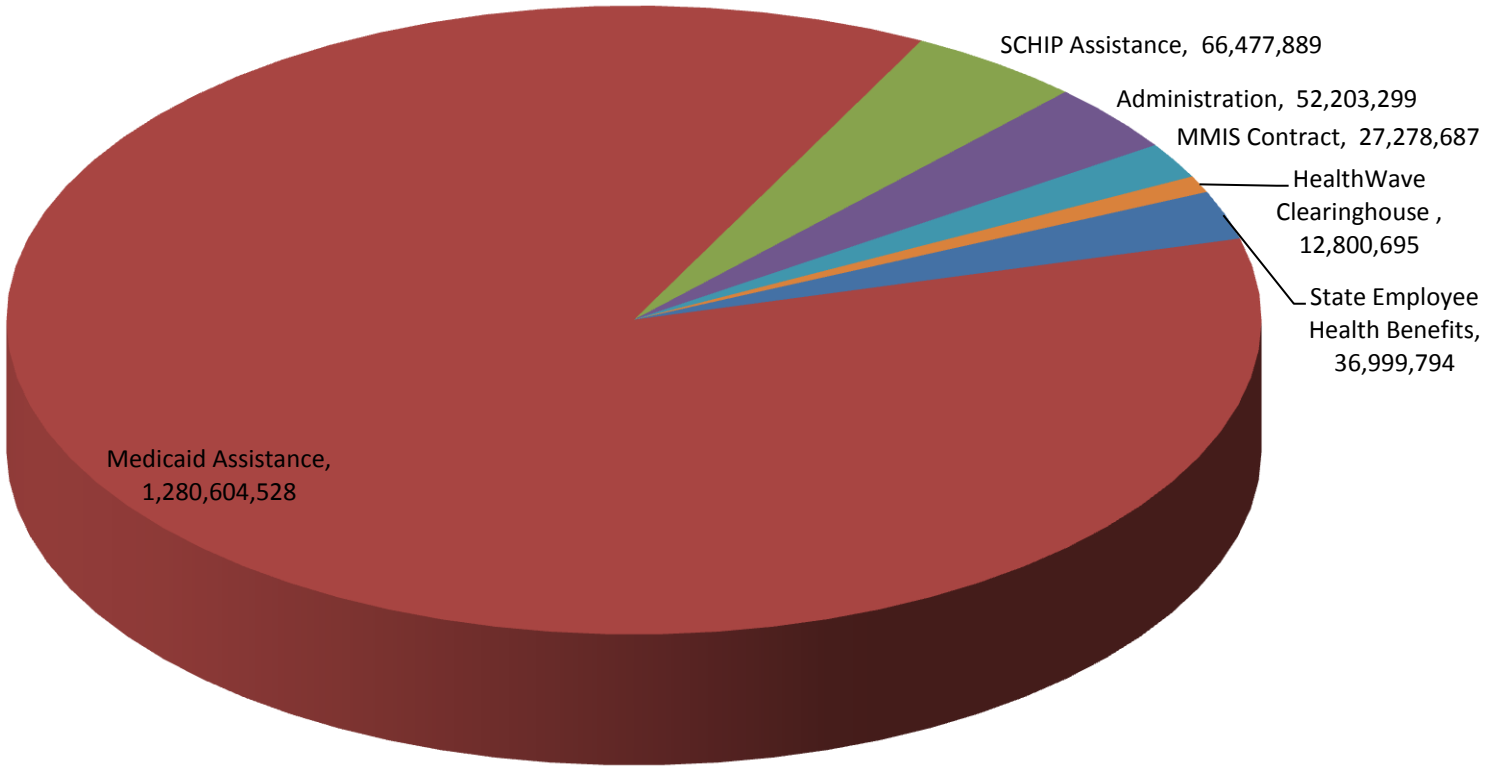
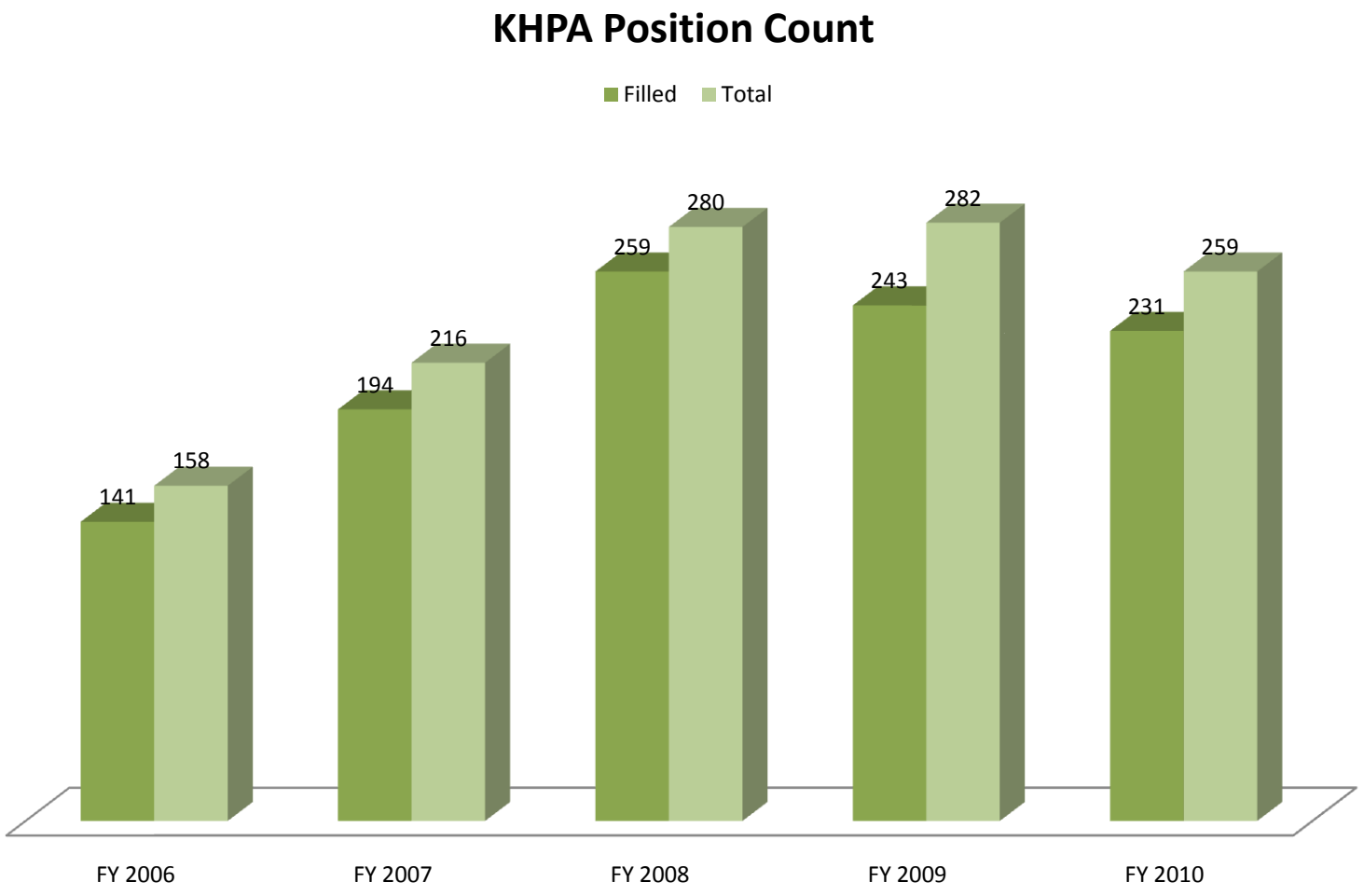
Brief Overview of KHPA's Budget

- **KHPA's FY 2009 budget was about $2.6 billion**
  - $1.36 billion was non-SGF funding for KHPA medical programs
  - $800 million was federal funds passed through to other Medicaid service agencies (SRS, KDOA, JJA, KDHE)
  - $450 million was SGF funding for services and operations
- **KHPA programs and operations are funded separately**
  - FY 2009 operational funding was $23 million SGF (now $18 million)
  - Caseload costs are about 20 times larger than operational costs
  - Caseload savings cannot be credited to cost-saving operations
  - The federal government matches Medicaid operations at 50-90%
  - Operational costs for the state employee plan are funded off-budget through standard charges to agencies for each participating employee
- **Until November 2010, budget reductions were concentrated on operations**
  - Medicaid caseload protected due to Federal stimulus dollars
  - KHPA operational funding reduced 15.5% versus FY 2009

KHPA FY 2010 Governor's Budget Recommendation

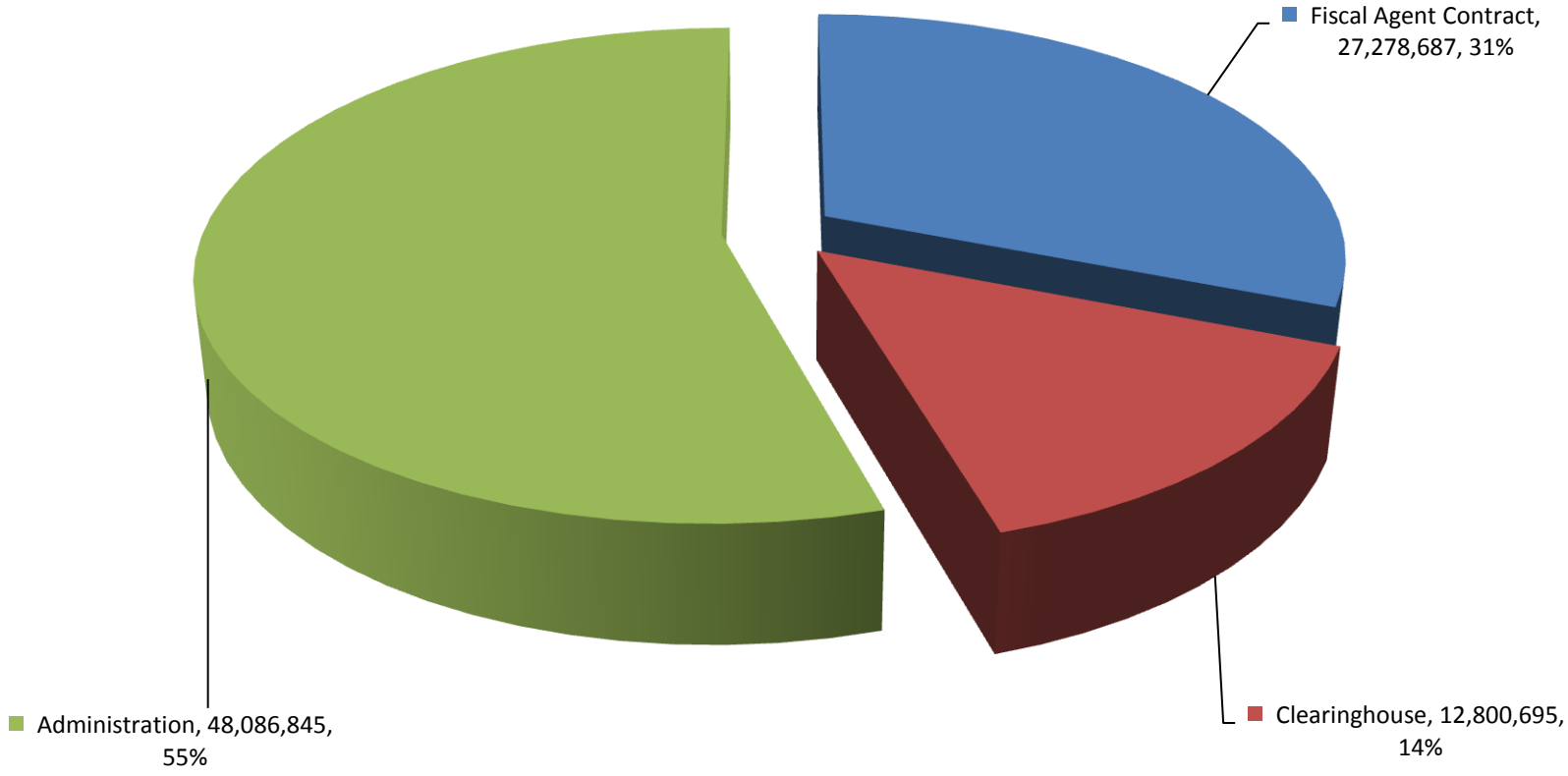


KHPA Positions

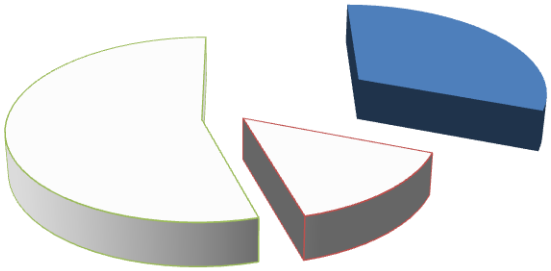


FY 2010 Operational Expenditures

All funding sources: $88.166 million



KHPA Functions at a Glance: Fiscal Agent ($27.3 million All Funds)



- Medicaid Management Information System (MMIS) - federal mandate: data processing system that manages claims and payments; assures compliance with state plan

- Surveillance Utilization Review Subsystem (SURS) - federal mandate: identifies waste, fraud and abuse

- Payment Error Rate Measurement (PERM) – federal mandate; assures program integrity

- Customer and Provider Service Call Centers: answer calls from providers, beneficiaries with billing, eligibility and other questions.

- FY 2009: Processing avg. 1.5 million claims per month

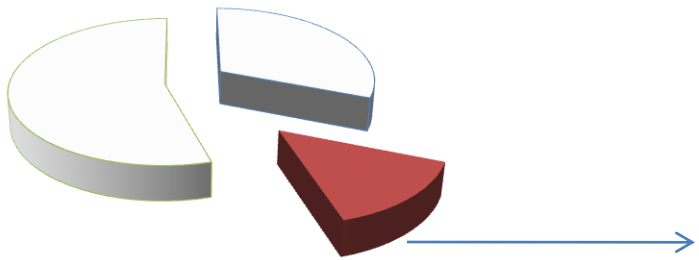
- Disbursing avg. $197 million per month in payments to providers

- Call Centers handling 21,127 incoming calls per month

- Outsourced to independent contractor

- Most costs fixed: volume-based contract

KHPA Functions at a Glance: Clearinghouse ($12.8 million All Funds)



• Processes Medicaid and SCHIP applications for coverage: federal mandate to process an application within 45 days

•Similar to a “sales” department in private sector

• Issues new policies

• Screens applicants for eligibility

• Unified application process: One application for family; screens for all eligible services

• Workload fluctuates with economy

• Majority of work outsourced

• FY 2009 – Receiving an average of 10,736 applications and reviews per-month

• ***Backlog of applications already growing as economy worsens***

KHPA Functions at a Glance: Administration ($48.1 million All Funds)

- Finance and Operations: budget; accounting; financial reports; purchasing

- In-house eligibility and claims processing (required by federal law)

- Actuarial Analysis: data evaluation; risk assessment; long-range planning

- Program management: quality improvement; risk management; cost control

- Human Resources

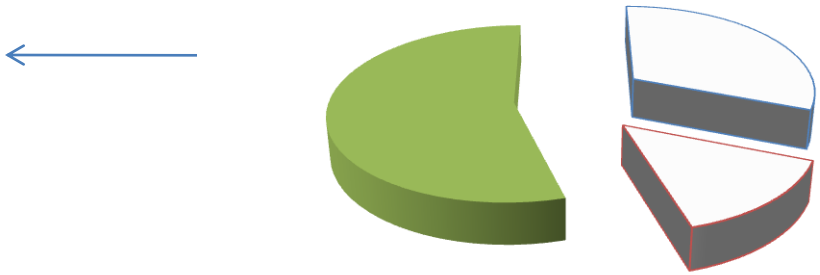
- Information Technology

- Legal Services

- Governmental and Stakeholder Relations

- Communications/Public Relations

- Physical Plant: rent; utilities; equipment; supplies



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FY 2010 Governor's State General Fund Allotments *July 2009*

- FY 2009 Caseload Savings ($5,300,000)
- Expansions to Pregnant Women ($524,000)
- Increased FMAP Rate ($6,300,000)

- No impact on current services

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FY 2010 Governor's Budget Recommendation

	SGF	All Funds	FTE
Self Fund MIPPA eligibility requirement	(168,166)	(340,000)	(2.00)
Salary or position reductions	(351,144)	(799,235)	
Clearinghouse contract reduction	(782,400)	(2,000,000)	
Use Healthcare Database Fee Fund	(177,492)	--	
Use Association Assistance Plan Fund	(443,638)	--	
Use Preventative Health Care Program Fund	(800,000)	--	
Subtotal Operations Reductions	**($2,722,840)**	**($3,139,235)**	**(2.00)**
Reduce DMIE Match	(6,000)	--	
November Consensus Caseload adjustment	18,324,000	11,373,253	
Reduce Medicaid Payment by 10%	(12,524,313)	(40,405,472)	
Limit MediKan to 12 months	(570,000)	(570,000)	
Reduce SCHIP Assistance	(1,031,596)	(3,684,271)	
Total Adjustments	**$1,469,251**	**($36,431,726)**	**(2.00)**

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FY 2011 Governor's Budget Recommendation

	SGF	All Funds	FTE
Salary or position reductions	(437,471)	(1,000,000)	
Clearinghouse contract reduction	(782,400)	(2,000,000)	
Administrative cost reductions (equivalent to 5% of the total budget)	(758,142)	(1,149,750)	
Use Healthcare Database Fee Fund	(177,492)		
KATCH grant	--	9,543,066	24.00
Subtotal Operations Reductions	**($2,155,505)**	**$5,393,316**	**24.00**
November Consensus Caseload adjustment	39,624,000	50,793,253	
Limit MediKan to 12 months (applies recommendation included in SRS budget)	(1,140,000)	(1,140,000)	
Streamline Prior Authorization (implement by funding additional contract costs through administrative reductions of $600,000)	(543,000)	(1,552,000)	
Level Professional Services Medicaid Rates	(1,000,000)	(2,800,000)	
Mental Health Pharmacy Management	(800,000)	(2,000,000)	
Reduce CHIP Assistance	(928,894)	(3,317,480)	
Total Adjustments	**$33,056,601**	**$45,377,089**	**24.00**

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FY 2010 Governor's State General Fund Allotments *November 2009*

- **Caseload reductions**
  - Across-the-board 10% reduction in Medicaid provider rates
  - Limitation on MediKan benefits to 12 months
- **Administrative reduction of $1.13 million SGF**
  - Total impact is $2.5 million all-funds
  - Cumulative 20.5% reduction since approved FY 2009
  - Allotment represents 5% reduction on FY 2009 base
- **SCHIP reduction of $1 million SGF**
  - Growing backlog may reduce pressure on funding
  - Waiting to see the impact of the January 1st expansion in coverage to children up to 250% of the 2008 poverty level

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Administrative Reductions in FY 2010

	SGF	All Funds
Eliminate extra funding dedicated to the Clearinghouse eligibility backlog	(140,000)	-
Cut State staff overtime at the Clearinghouse	(60,000)	-
Freeze KHPA staff overtime effective 11/30 and reduce personnel costs through attrition	(109,000)	(330,500)
Reduce scope of services in the Clearinghouse contract	(197,000)	(438,727)
Amend verification policies and reduce customer service at the eligibility Clearinghouse	(233,000)	(618,538)
Lapse funds from FY 2009	(150,000)	(363,000)
Amend Fiscal Agent contract to reduce per claim and enrollment costs	(250,000)	(779,885)
Total	**(1,139,000)**	**(2,530,650)**

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Eliminate Added Capacity at the Eligibility Clearinghouse

- Extra contract funding and state staff overtime dedicated to the eligibility Clearinghouse backlog
- Loss of funding will lead directly to growth in the backlog of applications, estimated backlog in June 2011 of 33,000
- Growing backlog will result in delayed or foregone medical care for beneficiaries and a loss of revenue for providers
- Created the potential violation of federal 45 day processing time requirements
  - Threatens compliance linked to ARRA funding
  - Potential loss of up to $11 million in CHIPRA bonus payments
  - Potential threat to $40 million HRSA grant for improved eligibility operations

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Examples of Simplifications to Medicaid/SCHIP Applications

- Self declaration of child support
- Eliminate trust test for “Caretaker Medical” (low-income parents)
- Self declaration of pregnancy
- Eliminate mid-year reporting for Transitional Medical recipients
- Continuous 12-month eligibility for caretaker medical (parents)
- Change income calculation for new applicants with new jobs
- Focus state workers on oversight and processing, not duplication
- Rely on Department of Labor wage information
- Pre-populate review form with lessened verification requirements
- New HW application designed to get questions answered accurately and to obtain necessary information

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Amend Fiscal Agent contract

- Discussed eliminating all Medicaid provider service and reduces customer service at the fiscal agent (HP) to meet the allotment reduction.
- Fiscal agent receives 250,000 calls per year from providers and beneficiaries. Without customer service, risk of reduced payment accuracy, payment appeals, and damaged relationships with providers.
- Exercised two year extension through FY 2013
- Added optional one year extensions for FY 2014 and FY 2015
- Reduced per claim processing fee by 5%
- Reduced managed care enrollment fee by 10%
- Added capacity to the web portal for provider, eligibility, and payment information

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Implementing the 10% Rate Reduction

- The "Budget Shortfall" payment reduction applies to the Medicaid paid amount (net reimbursement amount)
- Reductions are effective with dates of service on and after January 1, 2010
- The reduction applies to all providers as indicated in the public notice, published in the Kansas Register, December 17, 2009
  - HealthWave MCOs will pass the reductions through beginning in March or April, following mandatory advance CMS approval of the reduced capitation payments
  - The reduction will apply to paid claims, Medicaid disproportionate share payments, graduate medical education payments, critical access hospital settlements, Rural Health Clinic (RHC) cost settlements, Federally Qualified Health Center (FQHC) cost settlements, payments for Home and Community Based Services (HCBS) waivers, targeted case management, psychiatric residential treatment facility (PRTF), nursing facility for mental health (NF/MH), community mental health center (CMHC), substance abuse, head injury rehabilitation, and other payments.
  - The reduction does not apply to state institutions (University of Kansas hospital, state psychiatric institutions), nor to payments set by Federal regulation (i.e., through Medicare)

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Financial Impact of the 10% Reduction

- At least $18 million in savings to the state expected in FY 2010
  - About $8 million SGF for payment reductions to fee for service medical care providers
  - More than $10 million in expected savings through Medicaid services overseen by SRS and KDOA
  - Additional reductions through HealthWave managed care (pending CMS approval)
- The current federal matching rate is approximately 70%
- Providers experience the all funds reduction
  - Impact on providers is more than three times the savings to the state (1/.3 = 3.3)
  - Providers will experience a $58 million reduction in payments in FY 2010
- Foregone Federal matching payments of approximately $40 million in FY 2010
- The impact in FY 2011 will be more than twice as great if the reductions continue
  - Full year impact on providers would be at least $200million
    - State savings in FY 2011 would be at least $70 million
    - Foregone Federal matching payments would be at least $130 million
  - ARRA stimulus payments expire in December 2010, after which the state match reverts to about 60%

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Administrative Reductions in FY 2011

	SGF	All Funds
Freeze KHPA staff overtime effective 11/30 and reduce personnel costs through attrition	(260,000)	(709,100)
Reduce scope of services in the Clearinghouse contract	(76,670)	(170,379)
Amend verification policies and reduce customer service at the eligibility Clearinghouse	(480,689)	(1,068,198)
Amend Fiscal Agent contract to reduce per claim and enrollment costs	(624,368)	(1,946,588)
	($1,441,727)	**($3,894,265)**

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Reducing Medicaid Spending: Health Care Management and Quality Improvement

- Recent KHPA initiatives
  - Health Promotion for Kansans with Disabilities Transformation Grant
  - Enhanced Care Management Pilot Project
  - Community Health Care Record Pilot Project
  - Commonwealth State Quality Institute Phase I & II
  - Vermont Medical Home Technical Assistance Initiative
  - National Academy of State Health Policy State Consortium to Advance the Medical Home for Medicaid and CHIP Programs
- KHPA Board has requested a review of the net impact of HealthWave managed care
- LPA has engaged a study of the impact of extending managed care

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Reducing Medicaid Spending Budget Proposals

- Reduction Options Included in FY 2011 Budget Submission
  - Streamline Prior Authorization in Medicaid
    - Savings of $243,000 SGF/ $952,000 All Funds
    - *Requires new appropriation for outsourced technology and support*
  - Mental Health Pharmacy Management
    - Savings of $800,000SGF/ $2.0 million All Funds
    - *Entails a change in state law to allow use of standard pharmacy management tools*
  - Align Professional Rates in Medicaid
    - Savings of $ 1.0 million SGF/ $ 2.8 million All Funds
    - *This option was implemented in conjunction with the 10% provider payment reduction*
- Reduction Options presented to KHPA Board, not included in Budget Submission
  - Emergency Room Co-payments
    - Savings of $33,015 SGF / $93,000 All Funds
    - $25 per emergency room visit for a non-emergent condition
  - Increase HealthWave Premium
    - Savings of $350,226 SGF / $1,727,888 All Funds for a $10 increase in monthly premium
    - Savings of $1,419,941 SGF / $5,477,498 All Funds for a $20 increase in monthly premium

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Reducing Medicaid Spending: Recent Administrative Initiatives

- Medicaid Transformation and other actions include:
  - Reasonable pricing requirements for durable medical equipment
  - Outsourced management of non-emergency transportation
  - Developed diabetes management initiative for home health
  - (Pricing reforms in home health are in process)
  - Published performance and quality data for HealthWave
  - Established the Mental Health Advisory Committee
  - Automated Prior Authorization for Select Pharmaceuticals
  - Increased Presumptive Eligibility Sites

- Total savings in FY 2010 exceed $30 million all funds

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Funding Concerns for FY 2011

CHIP Assistance

- The Governor's budget includes a reduction of $928,894 SGF ($3.3 million All Funds)
- Based on our current estimates, total funding for FY 2011 is not sufficient
- Several factors creating uncertainty
  - Backlog of applications
  - Take up of the expansion population
  - Economic conditions persisting into FY 2011

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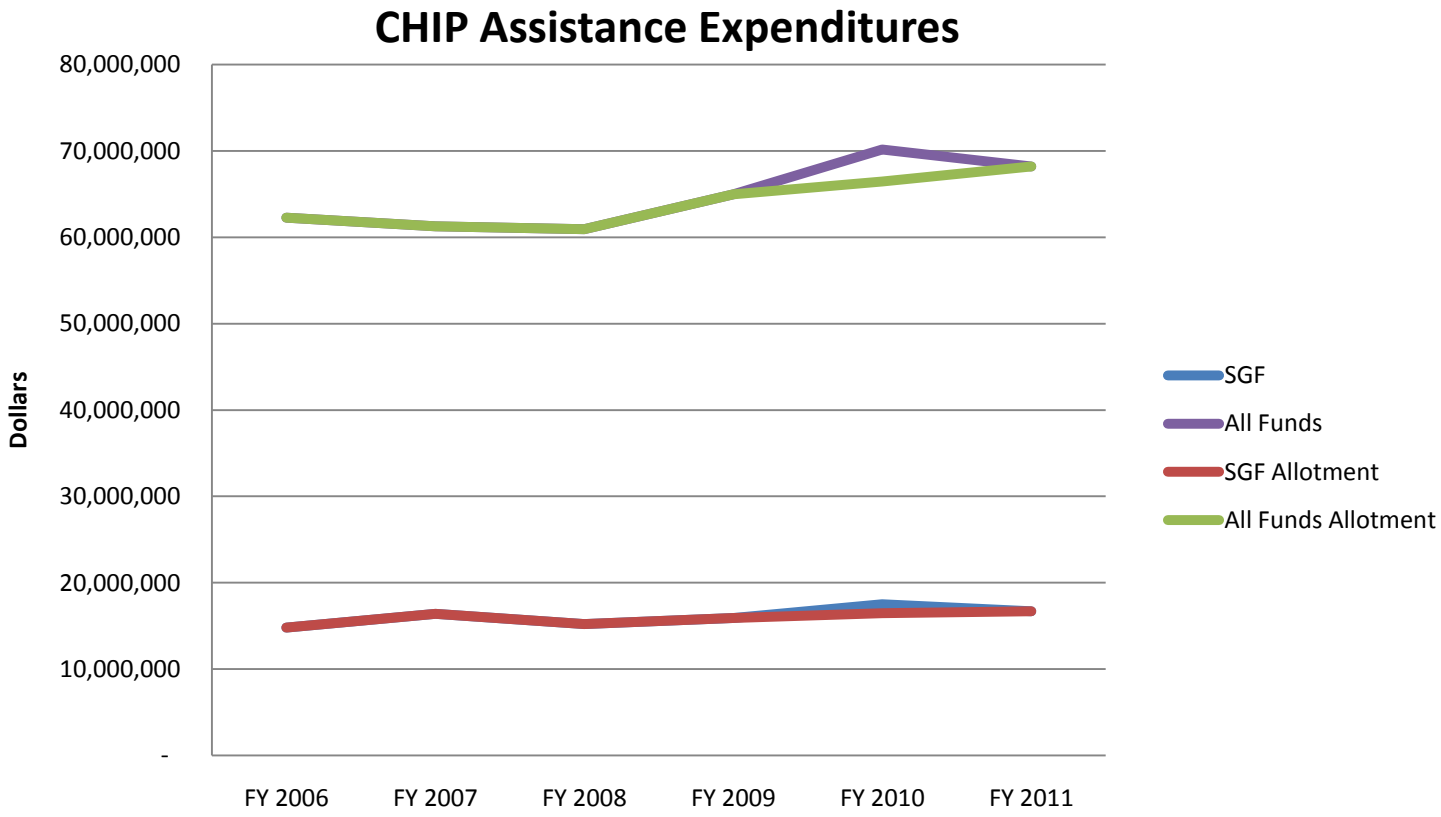
CHIP Assistance



New Federal Requirements for CHIPRA

- CMS has directed Kansas to identify a real choice for beneficiaries eligible for managed care.
- In western Kansas, there is no choice of managed care organization (MCO)
- Creating a choice requires
  - Allowing Family Health Partners to move into a region that wasn't included in the original bid; or
  - Modifying the state CHIP statute to allow a fee for service option for beneficiaries.

http://www.khpa.ks.gov/